

## Message Text

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TO USDEL SECRETARY IMMEDIATE

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NODIS

CHEROKEE

E.O. 11652: XGDS

TAGS: OVIP (KISSINGER, HENRY A.)

SUBJECT: RESEARCH PROJECT NUMBER 1

FOR PASSAGE ONLY FROM COLLUMS

OUR SEARCH HAS TURNED UP THE FOLLOWING TWO BRIEFING MEMOS,  
BUT NO CONGRESSIONAL LETTER.

1. BRIEFING MEMO NUMBER ONE FOLLOWS:

SUBJECT: CONGRESSIONAL INTEREST IN PROPOSED AMENDMENT  
TO AID TANZAM HIGHWAY LOAN - S/S 7609955, DATE: MAY 14, 1976  
FROM IGA - JOHN A. SHAW

A. SENATOR INOUE STRONGLY SUGGESTED I LOOK INTO THE  
PROPRIETY OF A LOAN AID IS CURRENTLY PROCESSING, AMENDING  
A LOAN TO THE GOVERNMENT OF TANZANIA. THE AMENDMENT PRO-  
VIDES AN ADDITIONAL \$3.8 MILLION TO COVER AN OUT OF COURT  
SETTLEMENT OF COST OVERRUNS STEMMING BACK TO 1972.

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THESE WERE INCURRED BY A U.S. CONSTRUCTION FIRM CONTRACTED  
TO THE GOVERNMENT OF TANZANIA, WHICH WAS IN TURN FINANCED  
BY THE AID LOAN. SENATOR INOUE BELIEVES THAT THIS  
ADDITIONAL LOAN IS SIMPLY A BAIL-OUT OF THE CONSTRUCTION

FIRM INVOLVED AND IS WITHHOLDING HIS "APPROVAL" FOR THAT REASON.

B. WE HAVE CONDUCTED A REVIEW OF THE AVAILABLE CASE FILES AND DISCUSSED AID'S RATIONALE WITH THE PRINCIPAL OFFICERS INVOLVED. WE HAVE BRIEFED INOUE'S STAFF AND PROVIDED THE SENATOR WITH A FACE SHEET DESIGNED TO INDICATE BOTH THE COMPLEXITIES OF THE CONTROVERSY AND THE REASONABLENESS OF AID INTENTIONS. MY HOPE IS THAT THIS, IN COMBINATION WITH THE INCREASING CONGRESSIONAL PRESSURE STIMULATED BY THE CONTRACTOR, WILL SATISFY HIM THAT AID'S PROPOSED LOAN IS THE MOST ACCEPTABLE COURSE OF ACTION OPEN TO US.

C. IT IS POSSIBLE THE CONGRESSIONAL SUPPORTERS OF THE CONSTRUCTION FIRM MAY ATTEMPT TO INVOKE A SUSPENSION OF ALL ASSISTANCE TO TANZANIA IF THIS ACKNOWLEDGED DEBT IS NOT PAID. THE SETTLEMENT AGREEMENT CALLED FOR PAYMENT ON OCTOBER 31, 1975. IN THE LIGHT OF YOUR RECENT INITIATIVES IT SEEMED APPROPRIATE THAT THE PROBLEM BE BROUGHT TO YOUR ATTENTION.

D. I HAVE INFORMED DAN PARKER OF MY ACTIONS AND AM URGING THAT HE MOVE QUICKLY ON A POST-COMPLETION AUDIT OF THE ORIGINAL LOANS AND CONTRACTS, AND ON AN APPRAISAL OF THE ENGINEERING SERVICES PERFORMED BY AID AND THE CONTRACTOR IN RESPONSE TO AN EARLIER REQUEST FROM THE SENATOR.

E. MEMO SENT TO THE SECRETARY FROM IGA - JOHN A. SHAW.

2. ACTION MEMO NUMBER TWO FOLLOWS:

A. TO THE SECRETARY FROM AID - JOHN E. MURPHY, ACTING ADMINISTRATOR. SUBJECT: AID LOAN TO TANZANIA - S/S 7601788, DATE: JANUARY 28, 1976.

B. THE PROBLEM - AID PROPOSES TO CONSIDER A LOAN OF UP  
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TO \$4 MILLION TO THE GOVERNMENT OF TANZANIA AS THE FINAL U.S. CONTRIBUTION FOR THE CONSTRUCTION OF THE TANZANIA-ZAMBIA HIGHWAY. YOUR APPROVAL IS SOUGHT NOW BECAUSE THIS ISSUE WAS NOT SPECIFICALLY RAISED IN MR. MULCAHY'S MEMORANDUM TO YOU OF JANUARY 6 CONCERNING U.S. ACTIONS TOWARDS TANZANIA.

C. BACKGROUND ANALYSIS - SINCE 1968 AID HAS PROVIDED \$31 MILLION IN LOAN FINANCING TO THE TANZANIAN GOVERNMENT FOR ENGINEERING DESIGN, SUPERVISION AND CONSTRUCTION OF TWO SECTIONS OF THE TANZANIA-ZAMBIA HIGHWAY. CONSTRUCTION OF THESE SECTIONS WAS COMPLETED BY THE NELLO L. TEER COMPANY (NLT) OF DURHAM, N.C. IN 1972 AND 1974 RESPECTIVELY.

D. TO DATE THE \$4 MILLION PLUS HAS NOT BEEN PAID TO NLT. TANZANIA HAS RECOGNIZED ITS OBLIGATION BUT STATED ITS BALANCE OF PAYMENTS DOES NOT PERMIT IT TO MEET THIS OBLIGATION NOW. THE GOVERNMENT HAS REQUESTED AN AID LOAN TO ASSIST IN FINANCING THE SETTLEMENT. MR. NELLO TEER, WITH CONGRESSMAN IKE F. ANDREWS OF SOUTH CAROLINA, CALLED ON THIS OFFICE TO ASK AID HELP IN OBTAINING PAYMENT AND TO RECONFIRM AID WILLINGNESS TO PROVIDE THE ADDITIONAL LOAN FINANCING FOR THE HIGHWAY.

E. AID HAS TOLD BOTH THE TANZANIAN GOVERNMENT AND NLT THAT A LOAN REQUEST REQUIRES A TECHNICAL AND LEGAL REVIEW AND THAT NO COMMITMENT CAN BE MADE UNTIL AID'S USUAL LOAN AUTHORIZATION PROCEDURES HAVE BEEN COMPLETED. WE ALSO HAVE STATED THAT PAYMENT BY TANZANIA OF THE NLT CLAIM CANNOT BE MADE CONTINGENT UPON THE POSSIBILITY OF AN AID LOAN. WE HAVE POINTED OUT TO THE TANZANIAN GOVERNMENT THAT ITS FAILURE TO PAY THE AGREED-UPON SETTLEMENT RAISES SERIOUS QUESTIONS AS TO AID'S ABILITY TO PROVIDE ANY FURTHER ASSISTANCE IN VIEW OF SECTION 620 (C) OF THE FOREIGN ASSISTANCE ACT. (THIS SECTION PROHIBITS NEW ASSISTANCE TO ANY GOVERNMENT WHICH IS INDEBTED TO ANY U.S. CITIZEN OR PERSON FOR GOODS OR SERVICES FURNISHED OR ORDERED WHERE, INTER ALIA, THAT PERSON HAS EXHAUSTED AVAILABLE LEGAL REMEDIES SUCH AS ARBITRATION.)

F. ON A NUMBER OF OCCASIONS OVER THE PAST TWO YEARS, WE  
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HAVE INDICATED TO THE TANZANIAN GOVERNMENT OUR WILLINGNESS TO CONSIDER SUPPLEMENTAL LOAN FINANCING AFTER THE ARBITRATION PROCESS WAS COMPLETED OR A NEGOTIATED SETTLEMENT REACHED. PROVISION OF FINANCING FOR SUCH OVERRUN COSTS HAS NOT BEEN UNUSUAL IN THE PAST, PARTICULARLY WITH GOVERNMENTS HAVING SUBSTANTIAL BALANCE OF PAYMENTS PROBLEMS. A LOAN FOR THIS PURPOSE WAS SPECIFICALLY MENTIONED IN OUR FY 1975 AND FY 1976 CONGRESSIONAL PRESENTATIONS. UNDER ORDINARY CIRCUMSTANCES, WE WOULD INDICATE TO THE TANZANIAN GOVERNMENT A WILLINGNESS TO GIVE PROMPT CONSIDERATION TO A LOAN APPLICATION OF THIS NATURE. ALSO, WE BELIEVE THAT IF THE TANZANIAN GOVERNMENT WERE REASONABLY CONFIDENT OF AID'S CONTINUED WILLINGNESS TO MAKE ITS FINAL CONTRIBUTION TO THE RAOD CONSTRUCTION PROJECT, IT WOULD BE ENCOURAGED TO GO AHEAD WITH THE PAYMENT.

G. REQUIREMENT FOR POLICY DECISION - A POLICY DECISION BY YOU ON THIS MATTER IS REQUIRED FOR TWO REASONS:

1. THE "HOLD" DIRECTED BY YOU ON CERTAIN NEW PROGRAM ACTIONS IN TANZANIA.

2. THE COURSE OF ACTION APPROVED BY YOU ON JANUARY 12 ON THE OPTIONS REGARDING POLICY TOWARDS TANZANIA PROPOSED BY ACTING ASSISTANT SECRETARY MULCAHY IN HIS MEMORANDUM TO YOU OF JANUARY 6 (ATTACHED).

H. WITH RESPECT TO THE "HOLD", THIS APPLIES SPECIFICALLY TO A PLANNED AGRICULTURAL SECTOR LOAN (\$12 MILLION) AND A PL 480 TITLE I SALE (\$5 MILLION), AND DOES NOT RELATE TO THIS PARTICULAR PROPOSAL. IT IS AID'S VIEW THAT A LOAN FOR THIS PURPOSE, WHICH RELATES TO COMPLETION OF FINANCING OF A MAJOR PROJECT OF U.S. INTEREST UNDERTAKEN OVER THE PAST SEVERAL YEARS AND PHYSICALLY COMPLETED OVER A YEAR AGO, IS NOT INCONSISTENT WITH THAT "HOLD".

I. THE OTHER POLICY ISSUE IS YOUR APPROVAL OF AMBASSADOR MULCAHY'S RECOMMENDATION THAT A PLAN BE DRAWN UP FOR THE "PROGRESSIVE REDUCTION IN DEVELOPMENT ASSISTANCE TO TANZANIA TO BECOME EFFECTIVE...IF THERE IS NO IMPROVEMENT IN TANZANIA'S POSITION". AID BELIEVES THAT AUTHORIZATION  
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OF THIS LOAN WOULD NOT NECESSARILY BE INCONSISTENT WITH THIS DECISION. UNLESS THERE IS A SERIOUS WORSENING OF U.S.-TANZANIAN RELATIONS, THE LOAN COULD BE AUTHORIZED BY AID AS PART OF ANY "REDUCED" ASSISTANCE PROGRAM APPROVED BY YOU UNDER THE ABOVE-MENTIONED PLAN. IT MUST BE RECOGNIZED, HOWEVER, THAT AN EXPRESSION OF AID WILLINGNESS TO CONSIDER A LOAN WOULD RESULT IN TANZANIA'S EXPECTATION OF SUBSEQUENT APPROVAL OF THE LOAN.

J. RECOMMENDATION - THAT YOU AUTHORIZE AID TO INDICATE TO THE TANZANIAN GOVERNMENT THAT AID IS PREPARED TO RECEIVE AND REVIEW IN A NORMAL MANNER A LOAN REQUEST FOR UP TO \$4 MILLION TO TANZANIA, AS A FINAL CONTRIBUTION TO THE HIGHWAY PROJECT. THE LOAN WOULD BE AUTHORIZED BY AID IN DUE COURSE (PROBABLY WITHIN TWO MONTHS) ASSUMING THAT IT MEETS TECHNICAL AND LEGAL REQUIREMENTS, INCLUDING SECTION 620 (C), AND THAT THERE HAS BEEN NO DETERIORATION IN U.S.-TANZANIA RELATIONS. SECRETARY APPROVED ABOVE RECOMMENDATION.

I. ATTACHMENT TO ACTION MEMORANDUM FOLLOWS:

SUBJECT: TAN-ZAM HIGHWAY PROJECT

1. IN 1965 THE AGENCY FOR INTERNATIONAL DEVELOPMENT (AID) UNDERTOOK A STUDY OF TRANSPORTATION REQUIREMENTS IN SOUTHERN TANZANIA AND ZAMBIA AT THE REQUEST OF THE TWO GOVERNMENTS CONCERNED. THE ZAMBIAN REQUEST ANTICIPATED AND WAS RELATED TO THE ILLEGAL AND UNILATERAL DECLARATION OF INDEPENDENCE BY THRODESIA. LANDLOCKED ZAMBIA FEARED

THAT ACCESS TO EXISTING TRANSPORTATION FACILITIES TO AND FROM THE SEA FOR HER COPPER EXPORTS (WHICH REPRESENT 95 PERCENT OF EXPORT EARNINGS AND 60 PERCENT OF GOVERNMENT REVENUE) AND FOR VITAL IMPORTS COULD BE CUT OFF OR SEVERELY LIMITED AT ANY TIME BY UNFRIENDLY REGIMES IN RHODESIA AND, AT THAT TIME, MOZAMBIQUE. THE RESULTS OF THE TRANSPORTATION STUDY INDICATED THAT THE CHEAPEST ALTERNATIVE TO THE ROUTE THROUGH RHODESIA AND MOZAMBIQUE WOULD BE THE UPGRADING AND PAVING OF EXISTING BUT LARGELY UNIMPROVED ROAD LINKS BETWEEN LUSAKA IN ZAMBIA, IRINGA IN SECRET

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CENTRAL TANZANIA AND THE PORT OF DAR ES SALAAM. IN ADDITION TO PROVIDING ZAMBIA WITH A ROUTE TO THE SEA LESS SUBJECT TO POLITICALLY-MOTIVATED LIMITATION OF ACCESS, THE IMPROVED TANZAM ROAD WAS ALSO PLANNED WITH A VIEW TO OPENING THE SOUTHERN HIGHLANDS OF TANZANIA TO GREATER AGRICULTURAL EXPLOITATION.

2. AFTER COMPLETION OF THE STUDY, THE TANZANIAN AND ZAMBIAN GOVERNMENTS REQUESTED LOANS TO FINANCE RECONSTRUCTION AND IMPROVEMENT OF THE 1200 MILE ROAD FROM THE INTERNATIONAL DEVELOPMENT ASSOCIATION (IDA), THE INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (IBRD), THE UNITED KINGDOM, SWEDEN AND THE UNITED STATES. THE 600 MILE ZAMBIAN PORTION OF THE ROAD WAS FINANCED BY THE IBRD (\$19.5 MILLION), THE UNITED KINGDOM (\$3.5 MILLION) AND ZAMBIA (415 MILLION). THE UNITED STATES DID NOT PROVIDE ANY FINANCING FOR THE ZAMBIAN PORTION OF THE TANZAM ROAD WHICH WAS COMPLETED IN LATE 1969.

3. THE TOTAL LENGTH OF THE TANZANIA PORTION OF THE ROAD IS ABOUT 561 MILES (MAP ATTACHED), COSTING ABOUT \$81 MILLION AND WAS FINANCED AS FOLLOWS:

USAID	\$31,000,000	
IBRD	22,500,000	
TANZANIAN		
GOVERNMENT	20,000,000	
SWEDEN	7,500,000	TOTAL \$81,000,000

4. THE UNITED STATES FINANCED THE FOLLOWING TWO SEGMENTS OF 146 AND 112 MILES EACH, WHICH WERE COMPLETED IN 1972 AND 1974 RESPECTIVELY.

5. TUNDUMA-IYZYI SECTION

LENGTH - 146 MILES. CONSTRUCTION BEGAN - AUGUST 1968. CONSTRUCTION ENDED - DECEMBER 1972. AID FINANCING - \$17.5 MILLION (PLUS \$4 MILLION UNPAID SETTLEMENT TO NELLO L. TEER). LOAN 005 AUTHORIZED 6/68 - \$13 MILLION;

LOAN 005A AUTHORIZED 5/71 - \$3.8 MILLION; LOAN 005B

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AUTHORIZED 5/72 - \$0.4 MILLION. GOT FINANCING - \$6.5 MILLION. CONSTRUCTION CONTRACTOR - NELLO L. TEER CONSTRUCTION CO. ENGINEERING DESIGN AND SUPERVISION CONTRACTOR - DELEUW CATHER INTERNATIONAL, INC.

6. DAR ES SALAAM-MOROGORO SECTION

LENGTH - 112 MILES. CONSTRUCTION BEGAN - AUGUST 1970. CONSTRUCTION ENDED - DECEMBER 1974. AID FINANCING - \$13.2 MILLION. LOAN 007 AUTHORIZED 6/69 - \$7.5 MILLION; LOAN 007A AUTHORIZED 6/70 - \$2.2 MILLION; LOAN 007B AUTHORIZED 5/72 - \$3.5 MILLION. GOT FINANCING - \$4.5 MILLION. CONSTRUCTION CONTRACTOR - NELLO L. TEER CONSTRUCTION CO. ENGINEERING DESIGN AND SUPERVISION CONTRACTOR - DELEUW CATHER INTERNATIONAL, INC.

7. THE IBRD AND SWEDEN FINANCED CONSTRUCTION OF THE REMAINING 302 MILES, PROVIDING \$22.5 MILLION AND \$7.5 MILLION RESPECTIVELY. THE GOT CONTRIBUTION TO THIS PORTION WAS \$9 MILLION. CONSTRUCTION WAS COMPLETED IN APRIL 1972.

8. ENGINEERING AND CONSTRUCTION ON THE 146 MILE AID FINANCED TUNDUMA-IYAYI SECTION OF THE ROAD PROVED MUCH MORE DIFFICULT THAN ANTICIPATED. AS A RESULT, A DISPUTE AROSE BETWEEN THE CONSTRUCTION CONTRACTOR, NELLO L. TEER, AND THE GOVERNMENT OF TANZANIA REGARDING PAYMENT OF TEER CLAIMS AMOUNTING TO ABOUT \$12 MILLION. ACCORDING TO TEER, THESE ADDITIONAL COSTS WERE INCURRED AS A RESULT OF ALLEGED FAULTY DESIGN SPECIFICATIONS BY THE CONSULTING ENGINEERING FIRM OF DELEUW CATHER INTERNATIONAL WHICH NECESSITATED ADDITIONAL WORK ON THIS SECTION OF THE ROAD. AFTER ABOUT ONE YEAR OF FORMAL ARBITRATION PROCEEDINGS BEFORE A LONDON ARBITRATOR, ON OCTOBER 3, 1975 TEER AND THE GOT REACHED A NEGOTIATED ONE-LINE SETTLEMENT OF \$4 MILLION PLUS \$577,000 ARBITRATION COSTS. THE GOT, IN THE SETTLEMENT AGREEMENT, AGREED TO PAY TEER THE \$4 MILLION (IN U.S. DOLLARS DEPOSITED AT THE FIRST NATIONAL CITY BANK/NY) BY OCTOBER 31, 1975 AND THE ARBITRATION COSTS ABOUT ONE MONTH LATER. TO DATE THE PAYMENTS HAVE NOT BEEN MADE. ON JANUARY 29, 1976, THE GOT FORMALLY REQUESTED A.I.D. LOAN ASSISTANCE. TO DATE, AID HAS NOT  
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RESPONDED TO THIS REQUEST.END OF MEMO.

9. AFTER PREPARING THE ABOVE I TALKED WITH MR. O'KEITH, AID OFFICER IN CHARGE OF EAST AFRICAN AFFAIRS, WHO

INFORMED ME THAT THIS CASE WAS NO LONGER OUTSTANDING. HE SAID THAT THE TANZANIAN GOVERNMENT HAS PAID MR. TEER IN FULL ON AUGUST 10. THE PAYMENT CONSISTED OF \$4 MILLION FOR THE OVERRUNS SETTLEMENT, \$577 THOUSAND IN ARBITRATION COSTS AND \$200 THOUSAND IN INTEREST CHARGES. ON AUGUST 11 AID SIGNED AND DISBURSED TO TANZANIA A \$3.8 MILLION LOAN (SENATOR INOUE HAD WITHDRAWN HIS OBJECTIONS TO THE LOAN IN LATE JULY). ROBINSON

SECRET

<< END OF DOCUMENT >>

## Message Attributes

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